# TOWARDS REORGANISATION OF INTERNATIONAL FINANCE

BY

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# PREFACE.

The European War has brought into prominence the vexed question of foreign exchanges, and it has been found necessary to take special measures in order to cope with the fluctuating rates and adverse balances. The methods by which the British Government was able to overcome the most pressing financial difficulties consequent upon the War are, in themselves, an indication that some improvement of a permanent character is desirable in the present system of International Finance.

In the following pages the different phases of the problem of exchange are investigated and means suggested by which the existing financial machinery may be utilised effectively towards the reorganisation of International Finance.

L.G.

*Bradford, April, 1916.*

## ARRANGEMENT OF SECTIONS.

# I.—THE BASIS OF INTERNATIONAL FINANCE.

In considering the problem of international finance we must bear in mind that the difficulties connected with it arise from the fact that nations can only pay for imports by exports (visible and invisible), that is, value for value in everything that can be bought and sold between countries.

## EXCHANGE OF GOODS AND SERVICES.

As the outcome of the international exchange of merchandise, credits, bullion, services, &c., each nation always has temporary debit balances to be paid by exports and credit balances to be received in imports from other countries; and thus the commercial relations between all nations resemble the transactions between the business houses of any one nation. For mutual convenience merchants adjust their debits and credits through bankers; and banks use the clearing house for the same purpose, making their final adjustments at the Bank of England. London is used as the World's clearing house, where foreign traders continually transfer the balances due to them from some countries

to the balances owing by them to others. In arriving at these settlements the question that always arises is whether or not the firm, bank, or nation has sufficient balances in its favour in some quarters to meet its debit balances in others. To provide for this eventuality the merchants use reserves and overdrafts, and the bankers give each other accommodation and maintain reserves. The nations have no definite arrangements for providing themselves beforehand with the necessary balances. The United Kingdom regulates indirectly the balances for her settlements by a reserve of gold, controlled by the bank rate, but the present circumstances have demonstrated that something more than this is desirable.

## THE IMPORTANCE OF BILLS.

The United Kingdom being compelled, under the circumstances of the European War, to import largely in excess of her exports, was not only confronted with the difficulty of finding means to pay for these extra imports, but at the same time had to take great care to prevent, as far as possible, anything being done which would adversely affect the ordinary course of trade. A continuous balance of bills of exchange is always required by the trading community, and to

prejudice the supply of these bills would have a disastrous effect upon the resources of the nation, as these instruments must always be available to pay for the food that comes from abroad, and for the raw material needed for manufacture in the factories; imports which are essential to the very existence of a country situated as this is.

Undoubtedly the situation was relieved to a great extent by people providing the market with bills of exchange as the result of the selling of their foreign securities, and thus bringing their capital home. The Government urged them to do this to as large an extent as possible, and made efforts to obtain control of American and Canadian dollar securities to cover Government debts and also to be used, if necessary, to facilitate the payment of ordinary obligations abroad. Where possible the payment of Government debts has been postponed by the flotation of credits and loans abroad, and by efforts directed to maintaining exports at the maximum that circumstances allowed and to reducing imports in some directions. The outflow of capital was prevented directly, in a certain degree, by restricting the formation of new companies, the making of new issues, &c., and indirectly by the issue of loans in England at attractive rates of interest.

## SALE OF FOREIGN SECURITIES.

There is no doubt that the sale of foreign securities, or their control by the Government, will always provide the most reliable means of relieving situations which are difficult for a nation, and will thus keep the market well provided with bills of exchange, but it must not be forgotten that, later on, the equivalent of the dividends on these securities will have to be found. It must also be remembered that foreign credits and loans are the means by which a country obtains time to frame and adopt the necessary measures for the final adjustment of value to be imported in relation to the maximum capacity of possible exports, leaving a margin for the payment of coupons and loans.

The nett outflow of capital from the United Kingdom for investment abroad previous to the War is supposed to have been between £160,000,000 and £200,000,000 per annum. Let us assume that, approximately, £160,000,000 is correct, in order that we may form an idea of the possibilities of this country regulating her trade satisfactorily after the War, so as to be able always to maintain the essential balance upon which to draw bills for ordinary trade, and to pay the coupons on the existing loans.

If, after the War, the £160,000,000, which is assumed to be the annual amount by which the foreign investments of the United Kingdom have been increased, was kept here instead of being sent abroad for investment, this amount would be released thereby for ordinary trade and for the future payments of coupons and loans. By preventing this surplus capital from leaving the country—directly by special measures, or indirectly by making it attractive for it to remain—this country should be able to make use of foreign currency to the extent of, say, £3,200,000,000, by selling the holdings of foreign securities to that amount. That is, by stopping the efflux of the £160,000,000 she could forego the influx of £160,000,000 of dividend in foreign currency, which, if estimated at 5 per cent., represents a capital sum of £3,200,000,000, or at 4 per cent. £4,000,000,000—which figure represents the estimated amount invested abroad previous to the War. A similar result would be attained by selling only part of the foreign securities, and raising loans abroad. If, for instance, arrangements were made to owe £1,000,000,000 on such terms that the repayment of interest and capital would be at the rate of, say, £110,000,000 a year, and, in addition, to sell £1,000,000,000 of foreign securities, with a sacrifice in foreign currency

of £50,000,000 from dividends, the same purpose would be served. It is obvious that in either of the above hypotheses the restriction of the future outflow of capital would assure the margin necessary to maintain the required balance from which to provide bills for the ordinary trade and loans. To what extent the United Kingdom is able to go in case of need with regard to indebtedness abroad depends entirely on the special measures to be adopted, as, under organisation, the possibilities of utilising her resources are great, and would be only limited by the capacity of other countries to take over her securities, &c. It is estimated that the accumulated wealth of England is about £20,000,000,000.

The War has shown that the United Kingdom can largely depend upon the loyalty of her subjects in time of stress, inasmuch as, in response to the Government appeal, foreign securities have been placed freely at the disposal of the State, thus demonstrating that the people have realised the vital importance of some kind of control of an adequate portion of foreign investments.

## DIFFICULTIES OF SPECIAL MOVEMENT.

The sale of huge amounts of securities, no doubt, presents difficulties which require very careful consideration. The transfer of so much capital, though serving to balance the finance of one country, may unbalance that of another, and money may not be available to purchase the securities when they are placed on the market ; in which event their value would fall. Owing to the excessive imports from America, the most pressing need of the United Kingdom has been to dispose of American securities held by her, in order that the funds may be at her disposal in the American currency. The amount of American and Canadian dollar securities previous to the War was estimated variously at from £700,000,000 to £800,000,000, and £300,000,000 to £400,000,000. In case the amount available was not adequate for the United Kingdom's responsibilities to that country, the question to consider would be what other securities could be sold to America, and to what extent the debtor would be able to dispose of her holdings in other countries, and transfer the proceeds. If necessary additional provision could be made by transferring to America

the registration of foreign companies registered in England, and by this means supplying further shares in the required currency. There is no doubt that other and similar means of meeting the exigencies of the situation could be devised, always supposing that advances could be obtained, or that purchasers of securities, &c., would be forthcoming.

There might be difficulties in disposing of a very large amount of foreign securities, many of which would be unsaleable, owing to various reasons, or it might not be deemed advisable to transfer certain financial control to other countries. If these considerations influenced the realisation of securities to meet the large excess of imports, special arrangements would have to be made with the countries interested, or their exports to England must be reduced to a minimum. For example, it would be to the advantage of the United States of America to consider a reduction of tariffs in order to increase the volume of the United Kingdom's exports to that country. Otherwise there would be no alternative but for the United Kingdom to discontinue buying, and to pay off the accumulated debt in gold, or by exports at the maximum rate permitted by the existing tariffs. The situation demonstrates con-

clusively that to profit by exports countries must make such arrangements that they can either correspondingly profit by imports or provide special facilities for carrying over balances, there being no other means of paying for imports than by exports. It is, therefore, evident that the Government of each country must not only guide and regulate trade, but must also make provision for bridging over the special situations which arise in all conditions of trading.

## EXCESS OF EXPORTS.

The fact that the United Kingdom has been able gradually to accumulate investments abroad to the estimated extent of £4,000,000,000—the annual accumulations previous to the War being from £160,000,000 to £200,000,000—demonstrates that her exports, including visible and invisible transactions, have exceeded her imports by that amount. When a country exports in excess of her imports, there are three corrective alternatives open to her. She can increase her imports, receive the excess in bullion, or invest the difference abroad.

If we assume that the amount of foreign securities was reduced during the War by

£1,000,000,000*—that is, the amount of securities sold out less advances to Allies, Colonies, &c.—the country could still go on investing abroad at least £100,000,000 a year, without any restrictive measures at all. If she were able to restrict, say, £60,000,000 a year—partly in imports, and partly by increasing her exports—the amount available for investment abroad would be approximately what it was before the War, assuming that trading and other factors continue the same. Considered from this point of view it seems that the financial standing of the United Kingdom promises to remain very strong if the War does not last too long, and that, most probably, her continued ability to finance other countries will depend more on internal economy and saving than on surplus of trade. There is an important consideration to be taken into account in this connection ; that is, that to finance other countries there must be, not only the necessary surplus of trade, but also a corresponding saving in the country to carry that surplus. Therefore the burden of taxation will have a very important bearing on this point.

* Sir George Paish estimated in March 1916, that Great Britain had called in £500,000,000 from abroad since the War, but that nearly the whole of the amount had been used in fresh loans in foreign and colonial countries.

## PERMANENT BALANCE FOR BILLS OF EXCHANGE.

The one thing crucially essential for conducting international commerce without disturbing the internal affairs of a country is a permanent balance upon which to draw bills of exchange. The sole object of this balance is to provide the trading community with the necessary medium for settlements. In fact, bills of exchange and bullion are, in regard to foreign commerce, the exact equivalent of what cheques and currency are to internal trade, and it is easy to see that the absence or shortage of either class of medium, even for a short period, would very quickly bring the trade of a nation to a standstill, because, in such case, there would be nothing with which to make the settlements when due.

To maintain a permanent balance upon which to draw bills of exchange, whether the balance is the natural outcome of trade itself or is specially provided for beforehand, is a matter quite different from maintaining an even balance of trade. The former assures that liabilities will be met as they become due, and the latter is the regulation of imports in relation to exports ; but as the exports of a nation include visible and

invisible transactions, it is evident that so long as these visible and invisible exports find a ready market a nation can successfully maintain an even balance of trade either as a creditor or debtor country.

All nations are, more or less, both creditor and debtor countries ; but, for the sake of illustration, we will call a creditor country one whose residents own more in foreign countries than people abroad own in her, and a debtor country the reverse. To maintain a balance of trade is, therefore, not solely a matter of imports and exports, but also involves ownership of capital ; and to gauge the extent to which a nation can go in maintaining its balance of trade, we must take into consideration the entire wealth of the country, the ownership of which can be transferred to residents of other countries by sales, or mortgaged by loans.

In summing up the whole situation we find that the difficult circumstances consequent upon the European War reveal, in a very convincing manner, the fact that to provide the market with the necessary bills of exchange is not only a national affair of the first importance, but is the key to the whole financial situation.

## II.—DEBASEMENT OF CURRENCY.

The inevitable result of a depreciated exchange is debasement of currency, and in the following extract from his "History of England," Macaulay thus eloquently describes the evil effects of such a condition upon the whole life of the nation :—

### MACAULAY'S ILLUSTRATION.

The mis-government of Charles and James, gross as it had been, had not prevented the common business of life from going steadily and prosperously on. While the honour and independence of the State were sold to a foreign power, while chartered rights were invaded, while fundamental laws were violated, hundreds of thousands of quiet, honest, and industrious families laboured and traded, ate their meals, and lay down to rest in comfort and security. Whether Whigs or Tories, Protestants or Jesuits, were uppermost, the grazier drove his beasts to market ; the grocer weighed out his currants ; the draper measured out his broadcloth ; the hum of buyers and sellers

was as loud as ever in the town ; the harvest home was celebrated as joyously as ever in the hamlets ; the cream overflowed the pails of Cheshire ; the apple juice foamed in the presses of Herefordshire ; the piles of crockery glowed in the furnaces of the Trent, and the barrows of coal rolled fast along the timber railways of the Tyne.

But when the great instrument of exchange became thoroughly deranged, all trade, all industry, were smitten as with a palsy. The evil was felt daily and hourly in almost every place and by almost every class—in the dairy and on the threshing floor, by the anvil and by the loom, on the billows of the ocean and in the depths of the mine. Nothing could be purchased without a dispute, over every counter there was wrangling from morning to night. The workman and his employer had a quarrel as regularly as the Saturday came round. On a fair day or a market day the clamours, the reproaches, the taunts, the curses, were incessant ; and it was well if no booth was overturned and no head broken.

No merchant would contract to deliver goods without making some stipulation

about the quality of the coin in which he was to be paid. Even men of business were often bewildered by the confusion into which all pecuniary transactions were thrown. The simple and careless were pillaged without mercy by extortioners, whose demands grew even more rapidly than the money shrank. The price of the necessaries of life, of shoes, of ale, of oatmeal, rose fast. The labourer found that the bit of metal which, when he received it, was called a shilling would hardly, when he wanted to purchase a pot of beer or a loaf of rye bread, go as far as sixpence. Where artisans of more than usual intelligence were collected together in great numbers, as in the dockyard at Chatham, they were able to make their complaints heard and to obtain some redress. But the ignorant and helpless peasant was cruelly ground between one class which would give money only by tale, and another which would take it only by weight.''

## OPPOSING INTERESTS IN CURRENCY.

The conditions depicted by Macaulay were largely brought about by the practice of coin clipping, but precisely the same effects would be produced by debasement of cur-

rency whatever the cause. When once the currency is fully depreciated gold disappears from circulation and paper is bound to take its place, with the result that the country is burdened with complications. The depreciated currency creates two opposing interests in the country, whose operations adversely affect its credit and trade. One section wants to pay and be paid at gold value, but the other, wishing to use depreciated currency to its own advantage, does all in its power to reduce the value further. This latter-mentioned section is made up principally of individuals having large debts contracted previously at the gold basis, and they endeavour to pay these debts in paper of lower value, while they themselves increase their incomes in relation to the exchange. For instance, a farmer who had mortgaged his farm would get more pounds sterling for his harvest, whereas his mortgage would still remain the same. Thus with a depreciated currency a new factor arises, which affects all transactions, and introduces increasing financial difficulties by fostering speculations and discontent.

With a depreciated currency imported articles and products which are subjected to direct foreign competition fluctuate in the reverse direction to the rate of exchange.

Ordinary debts, deposits, fixed incomes, wages, salaries, rents, &c., lose purchasing power in the same ratio as the exchange falls ; therefore a depreciated currency, which is the sequence of a falling exchange, means a loss in the savings of the people, in deposits, fixed incomes, &c. ; a loss to creditors ; and a gain to debtors. In theory wages, salaries, and rents, should be similarly affected, but although they are affected to some extent for a short time, discontent, strikes, and other causes very soon regulate them to the cost of living.

## THE GOLD STANDARD.

It is universally agreed that gold is the best standard for value of currency, and for that reason this metal has been adopted generally as a standard, and by many countries as currency itself. Gold fluctuates very little, its value allows it to be made into a handy coin, and it is more or less of the same value all over the World. Its transport is relatively cheap, and because it is in general demand it forms a most desirable reserve. It is, besides, an asset, forming part of the general wealth of the country, though as a national asset it does not pay interest, and therefore is costly to keep. If we presume that the gold reserve and currency were

maintained at £200,000,000, it would cost the country, say at 5 per cent., £10,000,000 a year. For this reason it is advisable to regulate the reserve of gold ; otherwise it would become a burden. Under normal conditions the bank rate has always regulated effectively the reserve of gold, but under a fully depreciated currency with continuous fluctuations, adjustments of the bank rate would be useless. Under the present system of a fluctuating rate of exchange gold can only remain in the country if the exchange is near par, and the market is well provided with bills of exchange. It would not survive a lower rate of exchange than its value, plus freight and insurance. This is not because the country could not afford to keep it, but because currency in this country can obtain bullion at par, but is depreciated when buying bills, and gold is, therefore, preferable to bills of exchange, and profitable to export as a good business transaction. With a large excess of imports it would be altogether unwise to import too much gold with the object of increasing the reserve, because the gold would have to be paid for as an ordinary commodity, and would consequently cause an actual diminution in bills of exchange ; which, of course, is the one thing to be avoided. To prohibit the export of gold would destroy automatically the

power it possesses to control indirectly the rate of exchange.

## SUPPLY AND DEMAND OF BILLS.

Under the present system rate of exchange determines the price we pay for the medium—bills, also called cheques and drafts—required for the settlement of foreign transactions. Therefore the supply of bills of exchange, as the outcome of trade, is the factor which determines the rate. An even quantity of bills available to supply adequately the requirements of the market should produce, if not affected by other influences, a non-fluctuating rate. This does not, however, imply that the exchange would be at par, but that it would remain stationary at the basis in existence immediately previous to the period at which the situation of even supply and demand occurs. In this country, where there is a reserve of gold free to export, the gold reserve has the effect of forming a surplus which forces the bill market to the parity of gold, simply because the metal is offered at a cheaper price than the bills are.

Because the bills available are adequate to the requirements of the market it must not be supposed that the quantity available represents the total in existence. It means

that they are offered to the public in sufficient quantity to meet the demand. On the other hand there may be in existence in London bills for £1,000,000 on New York, and a ready demand for the full total, but the market would only get the quantity that the holders of the bills wished to sell. There may be many reasons why the bills are withheld from the market. Holders may wish to avoid losses in relation to the price paid, or to safeguard themselves against a further fall. These influences, and others, such as rumours, may, therefore, affect the situation, when otherwise there may be no justification for assuming that the supply of bills is inadequate.

There are many other considerations which seriously affect the situation. The imports and exports of a country may be of equal value, but there always will be certain markets with balances against it, and others with balances in favour of it, and whereas those countries with balances in favour require to be paid some of those with balances against may be late in settlement, or may take more time to effect the necessary transfer of credits from other countries. Differences in terms for buying and selling also play an important part in the transactions. For example, one country may buy at cash

terms and sell at 60 days on one occasion, and on other occasions sell to a different market, say, at six months whilst still buying for cash. The free outflow of capital from one country to another is, in itself, a continuous menace to the supply of bills of exchange. The transactions of a nation may balance themselves in the aggregate of a year, but during that period her imports and exports may often be unbalanced owing to varying trade conditions, and to harvests, seasons, speculative opportunities, &c. In certain markets there are very few people who sell bills, and a great many purchasers, and this fact is responsible very often for the impression that there is a greater demand than supply, because prospective buyers get quotations of rate for their requirements from several holders of bills, in their endeavour to safeguard themselves. The result of this is an imaginary large demand, which causes holders to keep back their bills, and brings about a fall in exchange.

## EFFECT OF A FALL IN EXCHANGE.

A falling exchange, especially if gold should lose control by being exported, would, undoubtedly, compel every business house to cover its operations forward for several months, and this, in itself, would increase the

demand, and reduce the supply, thus further aggravating the situation. Add to this the opportunities for outside speculation, and the fact that, once the fall starts in earnest, capital would protect itself by leaving the country, and it will at once be apparent that the present system of rate of exchange has a very considerable effect on the real balance of trade.

## EFFECT OF A RISE IN EXCHANGE.

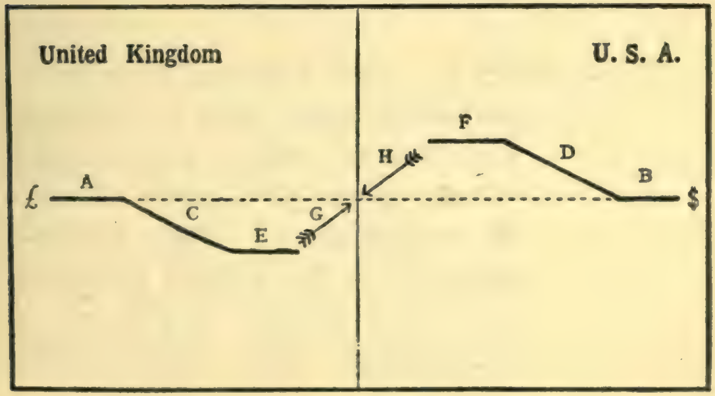
The currency having become depreciated a rise in exchange presents further difficulties, because capital does not readily return to a country when it has once left, and the appreciation of the currency would bring with it the problem of the relative reduction of wages, salaries, &c., which had been raised to meet the increased cost of living during the period of depreciation. The adjustment is almost impossible to achieve, and a general attempt to reduce all that had been raised would cause internal strife and discontent. The immediate result then of a big improvement in the currency would be a national crisis owing to a decrease in exports, because the goods to be exported would be too high in price, on account of the wages, &c., paid.

Under good management and favourable

conditions a country should have a large surplus of trade, which would go on increasing, and, as a result of this, under the present system of rate of exchange, the rate would rise much higher than par, as it would naturally continue to rise with increasing trade until the wage question would play its part, and reduce exports; but gold, free for import and export, is the medium adopted to maintain the currency at par. Being free for export it prevents a fall below par when there is a shortage of bills, and being free for import it prevents a rise above par when there is a surplus of bills.

## FLUCTUATING EXCHANGE AND CURRENCY.

The following diagram will further demonstrate the effects of a fluctuating exchange on the currency, under our present system :—



A. & B. Represent currencies of the United Kingdom and the United States of America as established by law ; that is, with the rate of exchange at par.

C. Debasement of currency in England, when bills of exchange on New York are scarce.

D. Inflation of currency in America when bills of exchange on London are plentiful.

[The fall and rise of C. and D· need not be in the same proportion, as they are independent of each other.]

E. & F. The new basis for currency in each country when an even balance of bills is resumed.

G. & H. When an even balance of bills is resumed, gold, free for import and export, forms the surplus which forces the price of bills of exchange to par, because currency in the United Kingdom can obtain bullion at par, but is depreciated when buying bills.

In our consideration of the debasement of currency we have investigated the various influences affecting the question, and in view of the evils that can arise from the present system a thorough investigation is desirable to ascertain if these evils cannot be prevented. Currency is intended for national use only and cannot be used in transactions with other nations. It should, therefore, be free from outside influences, and its standard value should be maintained whatever the circumstances of international trade.

## III.—GOLD RESERVE AND BANK RATE.

Gold reserve, free for import and export, has two main functions, separate and distinct from each other :—

(1) It provides currency,* and justifies the issue of notes payable in gold.

(2) Regulated by the bank rate it provides indirectly the balance upon which to draw bills of exchange. Peel's Act in 1844 provided that the Bank of England should buy all the gold offered to it at a fixed price, and by this measure a centre has been instituted to carry over in gold any surplus of trade.

Each of these functions is of sufficient importance in itself to merit separate treatment, and it is certainly not to the advantage of any country that one agent should be allowed to control two such dissimilar operations as the provision of currency and the indirect maintenance of balances upon

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* Gold is not currency except when it is enforced as legal tender.

which to draw bills of exchange. No country can exist without currency, whether it be gold, or any other form, nor without the necessary balances upon which to draw bills of exchange, and under the present highly organised systems, where all the transactions of the commercial World are simply transfers of debits against credits, and the giving or taking of facilities for carrying over balances, it would be of great advantage to the country to provide the necessary balances by special measures, instead of dealing with them entirely through bank rate and gold reserve.

An increase in the rate has the effect of inducing foreign countries to pay their balances, and encourages investments in England. It discourages application from abroad for loans and brings down the value of shares, thus giving an impetus to home investments. A reduction in bank rate, has, of course, the opposite effect.

## GOLD RESERVE THE GUIDE TO BANK RATE.

The state of the gold reserve thus serves as a guide to the bank rate, which, by regulation, indirectly provides the country with the essential balances in favour abroad upon which to draw bills of exchange. The general impression is that by raising the bank rate

the country lends its gold at a higher price, but the object of an increased rate is to maintain the reserve at a certain figure, and thus to obtain indirectly a balance upon which to draw bills, and a certain amount of gold in reserve is only the sign that such balance is in existence. This indirect method of maintaining the balance has been eminently successful under favourable conditions, but the War has demonstrated that when abnormal circumstances arise the powers of the bank rate are strictly limited, and are quite unable to control the international money market when there are disturbing influences. Under these conditions a high bank rate merely encourages home capital to help the Government, and does not necessarily attract foreign capital to England. In fact the situation has proved that under abnormal conditions, such as the War produced, no reliance can be placed upon bank rate and gold reserves as effective means of obtaining the necessary balances, and that the only way to deal with an increasing shortage of funds is to go direct to the market where the shortage exists, and make the necessary arrangements there to meet it.

Even under normal circumstances the present system only gives a very limited

number of foreign investors the opportunity to take advantage of the movements of bank rate, and thus the effect of an adjustment in the rate is to a large extent minimised, and also the system requires a continuous change of bank rate. Its operations are, indeed, identical with those of a firm carrying on business without banking accommodation. This firm would have to keep a certain amount of funds in hand which would earn no interest. When it had too much money it would have to lend the surplus at a low rate; and when without sufficient funds it would be compelled at the last minute to pay heavily for loans in order to maintain its funds at the required figure, and would run the risk of not being able to find the accommodation.

Under organisation the equivalents of deposits and overdrafts could be provided for the nation, and measures taken to maintain the balance upon which to draw bills of exchange, either by direct negotiations with other countries or by establishing a special reserve. The reserve could be made up of bullion, credits, and foreign investments, which could be used as circumstances required.

## WHAT NECESSITY HAS TAUGHT.

As the gold reserve itself is the outcome of surplus of trade, and investments abroad are also the outcome of surplus trade in one form or another, it seems quite natural that, if it was desired to strengthen the reserve of the nation, a certain balance should be maintained abroad under all circumstances of trade and bonds issued against that balance in this country. In other words we should profit by following the methods which the present War has compelled the country to adopt. This would not only assure the desired balance upon which to draw bills of exchange, but would also ensure a more permanent bank rate, to the benefit of the trading community.

There is no doubt that gold reserves will continue to be regarded as a most desirable asset to be kept for use as a last resource, and there is already a marked tendency throughout the World to come to this point of view. It is most probable that eventually currency will be made up entirely of notes, payable at the option of the bearer either by bills of exchange or by uncoined gold.

# IV.—THE DOLLAR LOAN IN THE UNITED STATES OF AMERICA.

Under the conditions which existed at the time of the American loan, with the prospects of continually increasing imports, the payment of an international debt by raising a loan in the creditor country only relieved the market temporarily, and merely created a new starting point for further fluctuations. In the case of a shortage of bills for trade a partial relief to the market does not prevent the exchange going further down, and when the £100,000,000 loan was floated in America the rate would have continued to fall but for the fact that the United Kingdom had a gold reserve free to export, saleable securities, and opportunities of raising additional credits.

## ANTICIPATION OF THE LOAN.

A loan of this description is anticipated by the market, and, consequently, its effects are generally discounted, as many people do their utmost to delay buying the remittance, and, moreover, it gives a chance to outsiders

for speculation. Therefore, before the loan becomes available there is an increase in the supply of bills of exchange and a decrease in demand, the natural consequence of which should be a considerable rise in the exchange if there is such a thing as a free supply of bills to the market; but those who have bills to sell are strong and can afford to hold back, and thus avoid a surplus, which would bring them a loss. This is the reason why there is seldom a big rise in exchange previous to the flotation of a loan, the rate being regulated principally by the financial strength of the holders of bills, and remaining more or less stationary.

## EFFECT AFTER THE LOAN.

When the loan takes place each one operates to cover himself, and if there are no prospects of further resources to supply the market with additional bills, or equivalents, advantage will be taken of the loan by many to cover not only their past and present operations but also their future ones, with the result that the situation existing before the loan instead of being improved will be considerably aggravated. On the other hand the supply is restricted, because it is more profitable under such circumstances to wait

as long as possible before selling bills in hand. It may appear at first sight that the bankers are responsible for this development of the situation, but, on reflection, we must admit that they are entitled to profit by their transactions and not lose. As a matter of fact they stand to lose more than they gain in buying and selling bills on a falling market, and, further, they are adversely affected by the shrinkage of value on capital through depreciation of currency.

That the exchange should have gradually risen after the flotation of the loan is due, no doubt, to the confidence that holders of bills had that the United Kingdom meant to take action in order to master the situation, and that, therefore, they had no reason to hold back their bills. In addition to this factor a large amount of bills must have been provided through private sales of securities, and actually a surplus for the ordinary trade must have been formed indirectly in this way. As already demonstrated, when we were discussing the debasement of currency, the exchange does not rise simply because the market becomes provided with bills. It always requires a considerable surplus at the disposal of

ordinary trade to force a rise, because holders of bills are reluctant to sell at a loss the bills in hand which have been bought at a lower rate, and, naturally, sellers of bills always do their utmost to obtain the best prices, which mean the lowest possible rate of exchange.

The loan was certainly a step in the right direction because, by covering the Government debts, it relieved the bill market for ordinary trade, but it was not large enough to be able to give direct assistance to trade by providing a surplus, and that is the only way to force a rise under our present system of rate of exchange.

The diagram illustrates the different phases of the PROBLEM OF EXCHANGE the transactions being shown as between two countries, The United States of America and The United Kingdom.

## VI.—EXPORTS AND IMPORTS.

It is generally agreed that exports and imports comprise all transactions, visible and invisible, which take place between nations. These transactions are carried out either directly between two countries, or indirectly between various countries. They may be classified under two groups, as follows :—

1. Commodities :—Raw material, manufactures, foods, drinks and animals.

   Bullion as a commodity of international value.

   Services :—Freights, commissions, insurance, &c.

   Trading Facilities :—The right to develop business in each other's country, either directly, or by means of investments.

Hospitality and protection to other countries' subjects, either temporary visitors or permanent residents, because some people derive all or part of their income from abroad, whilst others export part of their earnings.

2. Accommodation :—Terms of payment, credits, overdrafts and loans.

## VISIBLE AND INVISIBLE.

Commodities and bullion are called visible imports and exports, because their movements from country to country are seen and recorded. The remainder of the exports and imports are invisible, but, nevertheless, constitute a very important part of the whole.

The exchange of commodities is the principal object of international commerce, and matters like shipping, insurance, &c., not only provide for the safe transport of commodities, but are a means of deriving a good income by rendering services to other countries. Terms, credits, commercial facilities, and hospitality are means by which the exchange of commodities is further facilitated.

Trading facilities and hospitality between nations may be regarded as constituting a kind of co-partnership, and this phase of international activities is worthy of careful consideration, because its consequences are more far reaching than may appear at first sight. In the case of hospitality the importance of residence may be appreciated by consideration of the fact that a debtor nation could become a creditor nation if she could attract enough wealthy people to reside in the country. Again by sending out travellers, engineers, and instructors, or establishing agencies in other countries trade with those countries can be developed in proportion to the extent and efficiency of the agencies. Terms of payment are the direct help which individuals and institutions offer to each other in the shape of credits and overdrafts, and governments and corporations by way of loans, and these form an important part of the transactions. For instance, as regards trading facilities, a large amount of business is obtained which would otherwise be lost by giving financial accommodation to other countries as prospective customers, and thus two profits are secured, one from the loan and the other from the resultant trade.

## RESTRICTIVE MEASURES IN EXPORTS AND IMPORTS.

In order to conduct international commerce to the best advantage all nations adopt measures to regulate, restrict and prohibit some classes of exports and imports,* and encourage others, but some countries develop these to a much greater degree than others. Restrictive measures which affect another country's operations are, of course, nearly always open to retaliation, which may counteract the advantages obtained by the original restrictions. The outcome of restriction and retaliation generally, but not always, leads to special agreements being made between nations.

The object of exports is to pay for imports which are essential or beneficial to the country or more convenient to get from abroad, and the aims of every nation should be directed to increasing its exports in greater proportion than its imports, as the logical means of ensuring that the country will always be able to pay for its future requirements. It is the same case as that of an

* Exports and imports, when mentioned in the following pages, will mean visible and invisible, that is, all transactions between nations, whether in goods or services.

individual who labours not only to be able to satisfy his wants, but also with the object of creating a surplus, viz. :—Capital. The excess invisible exports of the United Kingdom have given her a large and profitable reserve abroad in foreign investments, by the use of which she has been able to overcome many of the financial difficulties consequent upon the war.

Should the affairs of an individual, company or banker not be properly guided in the direction of regulating debits in relation to credits and assets, there can only be one end, and that is disaster. The same thing applies to nations—which are merely combinations of individuals, companies and bankers—who, although dependent upon each other, work independently in opposite directions, one section importing and the other section paying for these imports by exports. It is only natural that, under favourable conditions, importers will do their best to extend their operations, but if they succeed to such an extent that their purchases are largely in excess of the country's exports a national crisis will result, owing to the shortage of exports to pay for imports. A similar crisis will occur if exports are greatly in excess of

imports. If, however, there is an understanding between the two sections, and they work in harmony for the common good, no such crises can arise, but as things are, although each is dependent on the other there is no kind of understanding. For that reason the action of the government of a nation seems to be the only logical method of regulating the activities of the two sections.

## JUDGING THE BALANCE OF TRADE.

With a definite line of transactions that take place between nations it is an easy matter to judge whether the result is favourable or the reverse, but when we judge the whole of the transactions, including terms of payment, we are bound to realise that we cannot arrive at any balance at all by these means. As a matter of fact the situation balances itself, for if the importing country is unable to pay because of lack of exports (including bullion), the other country will be compelled to wait whether it likes it or not. Therefore, when attempting to judge a balance of trade from the totals of all possible transactions between nations, we find that it resembles the total accounts of a ledger, where, no matter what the state of

affairs may be, there can never be in the aggregate a balance one way or the other. One may easily judge from the ledger whether any separate account has been paid in due time, and whether the account is increasing or decreasing, but if we want to find a balance of trade of the aggregate of the transactions, the only way to do it will be by taking stock and preparing a balance sheet, and the balance will be the amount by which the total wealth of the country will either be increased or decreased.

## ADJUSTMENTS UPON EXCESSES.

What happens with a large excess of imports is simply lack of medium for settlements, and a consequent dislocation of trade ; and the situation can only be overcome in one of the following ways :—

Incorrect way, no guidance :

> By the natural outcome of the situation which forces a postponement until the country can pay in exports, and which eventually regulates itself at the expense of the credit and trade of the country.

Correct way, Government guidance :

By the flotation of credits and loans abroad to finance the excess of imports, and the adoption of measures to help and regulate the country's trading, and thus avoid abnormal conditions.

With a large excess of exports there is an accumulation of credit balances abroad, which home importers do not require, and a deadlock ensues, as the exporters want payment for their exports, and have no means of obtaining it unless their own importers use the balance abroad. As in the case of excess of imports the situation can only be overcome in one of two ways :—

Incorrect way, no guidance :

By the natural outcome of the situation, which would eventually regulate itself through a crisis consequent upon overtrading, the evils of which are well known.

Correct way, Government guidance :

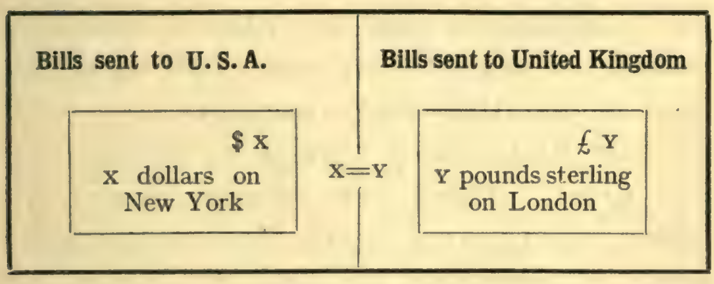
By regulating the country's exports to the amount to which the country can afford to trade; that is, organising

in such a way as to be able to finance the excess.

It is important, however, to remember that the postponement of a debt, or the adoption of any other measure, does not alter in any way the fact that the ultimate settlement of these transactions must always be an exchange of values, as shown in the diagram below.

| United Kingdom pays :— | U. S. A. pays :— |
|---|---|
| for imports ←—— | ——← by exports |
| by exports ——→ | ——→ for imports |

# VII.—THE BILL OF EXCHANGE.




The bill of exchange is the medium which has been universally adopted to facilitate trade by obviating the necessity of using bullion for payments, and in view of the important part it plays in all international transactions it is desirable to bear in mind its three main functions, viz. :—accommodation, collection, and remittance.

An accommodation bill is used purely for giving or taking accommodation, and does not imply any definite transaction except the responsibility to pay by the two interested parties to the third party who provides the money or credit by discounting it.

A bill for collection affords the exporter the best possible means of collection through his banker, and of obtaining credit by discounting the bill, whilst, at the same time, he is able by this means to give accommodation to his customer, and fix definitely the date of payment. With the proceeds of the bills for collection bankers provide us with bills for remittances, and, in order to be in a position to supply their customers with this kind of bill, they make arrangements with bankers and others abroad by which they can draw. There are various means by which the bankers arrive at a settlement, such as remitting the amount drawn, or drawing on each other and remitting the balance, entrusting one another with the collection of bills and other business.

Bills for remittance are also produced directly by the firms who sell them, by their own exports, by the sale of securities, and by the proceeds of financial transactions. There are, besides, in certain countries, firms who, although merchants, carry on banking operations to some extent, and offer to the public bills for remittance which are produced by their ordinary transactions. A bill for remittance is sold for cash at the market rate of exchange, and varies in price according

to the date of payment; sight, short date, 60 or 90 days, &c. These variations represent the banker's charge for his services under the different terms of payment. The banker who has received the money in advance in one country provides himself with a credit through his agent abroad, and opportunities of these credits are taken in both directions, the usance varying according to custom.

The quality of bills of exchange varies according to the financial standing of the acceptor and drawer, and bills are known as banker's bills, fine business bills, first, second and third class. Discounting houses and others discount them at terms in relation to circumstances. Second and third class bills are often endorsed by houses of good repute, thus being converted into first class bills for discounting purposes.

A bill of exchange can only be drawn against a balance in favour, whether it is the outcome of a debt, open credit, deposit or any other transaction, but, as already demonstrated, a nation can only pay for imports by exports, and, having this in mind, we must realise that a bill of exchange, although handled and bargained for by so many

individuals, is essentially a national consideration which materially affects the country's interests. Exports, credits, loans, &c., always provide beforehand the full value in the desired foreign currency upon which bills of exchange must be drawn. From a national point of view, then, these bills are really certificates authorising the transfer of the debits of one section of the community against the credits of the other section. Therefore, when an importer buys a bill of exchange he should not buy it as foreign money, but as an order to settle his share in the transactions between the two countries, and for which provision has already been made in the desired currency at par.

# VIII.—RATE OF EXCHANGE.

| United Kingdom | U. S. A. |
| --- | --- |
| £ currency, gold standard = Correct rate | of exchange = $ currency, gold standard |

By custom of trade rate of exchange is used as the price of bills of exchange. This price is determined by many conflicting influences. For instance, the general feeling of a market is affected by facts or rumours directly or indirectly referring to trade, bills of exchange, the financial state of a country or of individuals. This allows supply and demand to fix finally the price of the bill in relation to the desire or ability of the individuals concerned to buy, sell, or wait. Custom of trade has for so long fixed the rate that it seems to be a matter of no importance whether the custom affects adversely or favourably the medium adopted for facilitating trade; that is, whether the bill of exchange carries out its correct functions, or is diverted to provide speculative opportunities, and thus disturb the credit of the nation.

In the case of an ordinary commodity there is an apparent reason why the price should be governed by supply and demand, as an increase in price generally means an encouragement to increase production, and, therefore, ultimately benefits the public; but the case of a national medium used to transfer credits against debits is quite another matter, as the necessary funds which the medium represents can only be established by exports, and without exports bills of exchange would be unobtainable whatever the price offered. Therefore, in that case bargaining in accordance with custom of trade is unreasonable, because it creates artificial conditions, depreciates the currency and actually decreases the supply of bills.*

If a country paid and received bullion to cover all its international transactions it is easy to understand that there would be no fluctuations, and similarly if it did not use bills of exchange, but simply transferred debits and credits, and paid balances in gold, it could do so without depreciating its currency. Bills of exchange are used as a better and cheaper method, one country sending bills to other countries in return for those they send to it, and paying the balances in

* See pages 27 and 28.

gold, or postponing them, correctly or incorrectly.*

## FLUCTUATIONS IN THE RATE.

The question then to ask ourselves is : Why should the rate of exchange fluctuate when it is required only as a basis upon which to transfer our own debits against our own credits ? That the section of the community which provides the market with bills of exchange should be suitably remunerated is quite natural, but that the form in which the remuneration is made should also depreciate our currency is quite another matter. The exporter is, no doubt, satisfied with the profit on his export, and the banker with his commission for buying and selling the bills, but a depreciated currency, as already demonstrated, means dislocation of trade, and is greatly detrimental to the country.†

If we dissociate our minds from the present custom of trade, it will be seen that rate of exchange, being the exact equivalent of one currency to another, ought not to be used as a fluctuating factor, and, as the currencies are established separately in each country for internal purposes, there should

* See pages 49-51. † See page 22.

never be any deviation in the relation between them. There is no room in a country for foreign currency, because it is not legal tender. Transactions with other countries are always simply exports for imports, value for value ; and because the value of currencies is a fixed legal standard their equivalent should be a standard itself.

If we take two standards of two different countries—the yard and the metre—and imagine for a moment that, after fixing the price of a material, we bargained for the rate of equivalent between the two measures at the time of payment, the inconvenience and absurdity of the system is immediately apparent. The rate of a bill of exchange should be the equivalent between two standard currencies, and the price of the bill should only be a commission for services rendered, and expenses incurred.

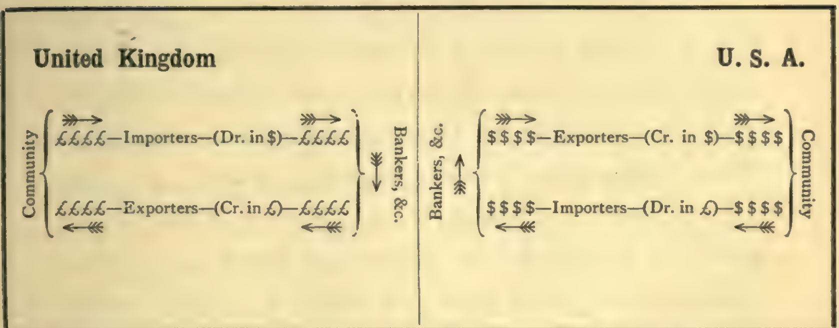
## THE OPPORTUNE TIME FOR A CHANGE.

Four standards are essential to trade and commerce,—a basis of value, weights, measures, and fixed periods of time and dates ; and these are established and maintained by law. So far we have reconciled ourselves to a bad custom of trade which interferes with and controls the rate of exchange to the

detriment of the standard value of currency, but the time is opportune to modify this custom and provide measures to establish permanent rates of exchange in order to avoid inflations and deflations of currency when buying bills of exchange.

We shall never succeed in fixing the price of bread by law at half its cost, and we shall never get the benefit of standards to measure our commodities unless they are enforced and protected by law. A basis to measure debits against credits is not serving its purpose if it does not measure truly all transactions, and it should still remain an exact standard if there were nothing whatever to measure. It is very little use when it is regulated in relation to the volume of trade, for which it is supposed to act only as a standard for measurement of value. No man or country stands to gain anything honestly by a rising or falling exchange, but the whole World would benefit by fixed standards, which would guarantee value for value under all circumstances.

# IX.—DISTRIBUTION OF PROCEEDS.




When we come to analyse the final distribution of the proceeds of imports and exports, we find, by referring to the diagram on page 51, that the United Kingdom and the United States of America pay each other by exports for imports, and that each country pays itself by imports for exports. From a national point of view the importers have received the goods, &c., for which the exporters have paid in exports, and, as previously explained, this settles the matter so far as the exchange of values between the two nations is concerned. What now takes place in the United Kingdom is this :— The importer sells his American products in England for sterling, and pays through

his bank to the exporter in sterling by buying a bill of exchange to send to America, which is drawn against the proceeds due to the exporter in that country.

In considering the negotiations which take place in this country we see from the diagram that the debits to the importers are in dollars, and the credits to the exporters in sterling. This difference necessitates a basis—rate of exchange—by which to determine how many pounds sterling the importer shall pay when transferring his debit in dollars to the credit of the exporter, and which both transact in sterling through their bankers in England, as the currency of one country cannot circulate in the other. A similar operation takes place in America, but in dollars, and the diagram illustrates the process by which imports and exports pay for one another in each country separately, and shows the circulation of currency which takes place. The whole operation in each country is similar to the action of an individual transferring some of his own money from one pocket to the other. There is no reason why he should lose any of it in the process ; and in no degree should the operation affect the purchasing power of what remains in the first pocket.

## THE RESPONSIBILITY FOR CURRENCY DEPRECIATION.

In the case of a postponement of payment through the medium of a loan the loan provides the required currency at par. Therefore, when a bill is bought in England on New York, it is not New York that provides England with the bill, but England herself through exports, or by the proceeds due from postponements by credits or loans. If there were no proceeds due to England upon which to draw bills of exchange no alteration in rate of exchange would produce them. Therefore it is simply a question of providing the necessary funds by exports, or by postponements. Consequently a depreciation of British currency by bargaining for these bills is the fault of people in the United Kingdom, and cannot be attributed to any action in the United States of America. That America should have an inflation in the value of her currency, when selling bills on London, because there are more bills than the market requires, is entirely America's affair. If there are bills available they can be bought, but if there are none they cannot be obtained, whatever the price offered. Where there is an excess of bills on the market it is not a matter of

offering them at a cheaper price in order to sell them, as bills on London represent exports from America, which can only be used to pay for imports, and if there are no imports for the surplus of bills, there will be no buyers whatever the price. The situation can only be met, as previously stated, by means of postponements, by accepting some kinds of imports, including gold, in payment, or by regulating exports and imports.

In the distribution of proceeds we seem to ignore the fact that the country has provided the medium in advance by exports, or by postponement through credits and loans, and in each country we bargain as if we were buying a share or loan, seemingly forgetting that bills of exchange can only be drawn on a balance provided always at par in advance, and that a country can only settle for her imports in one way, and that is by exports. Currency plays no part in the transactions with foreign countries, except in a negligible quantity for travelling purposes. It is entirely a question of transferring credits against debits.

# X.—THE ORGANISATION OF INTERNATIONAL FINANCE.

In the following pages some suggestions are made for establishing a permanent basis for rate of exchange, in the first place by dissociating currency from rate of exchange, and then by organising the supply and demand of bills of exchange.

## A PERMANENT STANDARD FOR RATES OF EXCHANGE.

Standards can only exist if they are enforced and protected by law. Therefore, in order to establish a correct basis for rate of exchange, which is solely required as a standard,* it should be made illegal for anyone in the country to exchange currency at any other than the value fixed by law. It follows then that there would be no bargaining for value of currency when credits were transferred against debits in England in English currency† through the medium

* See page 60. † See page 64.

of bills of exchange, or in any of the following cases or similar ones :—

1st When discounting bills of exchange due for collection abroad, or similar transactions.

2nd When providing the market with bills for remittances payable in foreign countries.

3rd When transferring money by cable.

4th When making payments or settlements of any description in English currency as an equivalent to any foreign currency.

5th When exchanging foreign currency for the benefit of travellers.

To prevent any attempt at evading the law by the wording or terms of the bill of exchange a tariff of charges and commissions should be established by the bankers themselves and be revised from time to time, as circumstances required, say, under the supervision of the Bank of England.

It would, no doubt, be possible to fix a standard rate of exchange based at par on, say, a 90 days' first class banker's bill, and to have different rates for different terms and classes of bills, but it would obviously

be better to have only one standard of rate of exchange for every country, which would never fluctuate. Charges, such as freight, insurance on bullion, commissions, and the expense of keeping reserves, could be dealt with separately, as it would probably be found necessary to make changes in these periodically. For instance, the charge to be made for sending out gold when selling bills of exchange, could be determined from time to time by taking the actual expenses of imports and exports of gold during, say, a year, and dividing the amount by the total of the bills drawn against foreign markets for the same period.

## ADVANTAGES OF FIXED RATES.

The advantages of fixed rates of exchange are obvious. They would give an immutable measure of value to currency for all the internal purposes of a country, and would prevent the practices made possible by rate fluctuations.* They would also remove the inducement to keep bills back in anticipation of a fall, and by doing so the true state of the market would be better known.

If a country was not able to pay its debts in exports or gold, a fixed rate of exchange would give other countries to which it was

* See page 22.

indebted the alternative of using their claims to buy goods later, without any possibility of depreciation when the claims were in the currency of the debtor country. In the case, say, of England selling in pounds and America in dollars the depreciation of the currency, would not, of course, alter the value of the claim, but, as depreciation of currency means dislocation of trade in the country where it takes place, the recovery of a claim would, naturally, be more difficult under those circumstances.

To judge a country's credit by the rate of exchange is very misleading, as in the financial negotiations between nations one section of the community pays for the other, and so far no system has been adopted by which a definite credit could be asked for or given when the section paying on behalf of the other has not done so in due time. So far as the credit of a country is concerned, this is, and always will be, valued in the proper way on the stock exchanges by means of the various quotations of loans, &c.

When a country is late in payments by exports for imports it would, no doubt, be found, on thorough investigation, that the difficulty was due to not having provided beforehand the means to bridge over the situation, or that no arrangements had

been made to carry the debt forward on definite terms. The omission of measures to regulate expenses in relation to income in the aggregate of the community, will also finally affect imports and exports.

It is highly desirable that there should be a fixed standard with which to measure the debits and credits of a nation on a true basis under all circumstances, but to provide this standard does not mean that the nation should continue to leave one section of the community to pay for the transactions of the other without taking steps to bridge over the special circumstances which always arise in trade, and which are largely due to the fact that the two different sections cannot work in harmony unless their efforts are directed and helped.

In fixing the rates of exchange a country protects itself by obtaining a non-fluctuating currency. It does not interfere with the affairs of any other country by doing so, but safeguards their claims upon itself by maintaining its own currency at par. In other words, the adoption of a fixed rate of exchange in one country is of inestimable benefit to herself and all other countries who are her customers, as it safeguards trade by establishing it on a sound basis.

Under a fixed standard it would be a very simple matter for merchants in England to quote for business abroad in foreign currencies, as advocated by the Board of Trade, because they would not have to consider the vagaries of a fluctuating rate, and, therefore, could state fixed prices without fear of loss.

Apparently the functions of rate of exchange have been misunderstood, not only by the United Kingdom but by every other country; and if we are satisfied that the rate is only required as a standard, it should not be a difficult matter to convince any of the countries with whom we desire to transact business of the benefits to be derived from the adoption of the necessary legal protection of the value of their own currency. It must not, however, be forgotten that rates of exchange are required only as a basis to settle the domestic affairs of a country in distributing the proceeds of the credits due to her exporters against the debits of her importers,* and, therefore, if any, or all, of the other countries refuse to protect the value of their own currency, the United Kingdom can easily provide machinery to transfer her own debits against her own credits, and thus solve her part of the problem satisfactorily.

* See page 63.

In order that currency may fulfil the functions for which it has been provided for internal purposes, it is not only desirable that it should not appreciate or depreciate in value, but is essential that it should not do so, and the natural solution of that matter is that rates of exchange should be fixed by law for all transfers that take place in the country under all circumstances of trade.

## THE BANK OF ENGLAND AS THE CONTROLLING CENTRE.

The Bank of England would be an ideal institution if it had branches in every other country to take control of the settlements of all our foreign trade, and to carry out all the necessary financial functions in connection with it. As the controlling centre in England every other bank in the country would have a special account with it for foreign transactions, and would give and take accommodation for mutual benefit.

The Bank of England could provide the other banks with orders to pay in foreign countries as follows :—

(a) All bankers would draw bills, cable transfers, &c., direct to the foreign branches of the Bank of England, or against any foreign bank for final

payments by the branch of the Bank of England in that country.

(b) The Bank of England would periodically advise each bank to what extent it could draw without consultation on each market, and, where necessary, would ask to be consulted before bankers draw bills.

(c) Every banker would be required to give a statement direct to the Bank of England in London of his drawings to every other country, whether they were made direct to his branches or not, and the corresponding amount would either be paid by return or carried over to his account. These statements need only consist of groups and totals.

On the other hand the bankers would entrust the Bank of England with the collection of proceeds of their customers in foreign countries as follows :—

(1) Every banker would be required to send his bill of exchange or order to collect, either direct to the branch of the Bank of England abroad, or to any foreign bank in that country, with an order to transfer the pro-

ceeds to the branch of the Bank of England to his order in that country.

(2) Firms that both import and export, or carry on banking operations, would also be required to give information to the Bank of England, and, in case of need, to observe similar conditions to those imposed upon the bankers.

Under this organisation bankers could still keep to their present arrangements for collections abroad, and give or take accommodations as usual, or the Bank of England could do this for them through its agencies appointing foreign bankers in all towns, to whom bankers would send their bills, &c., to collect. In either case the Bank of England and its agencies would only deal with bankers and pay or receive final balances.

Once this machinery had been set in operation opportunities would soon arise for considering combinations and agreements with the Colonies, Allies, and other countries, as they could easily solve their part of the problem to their entire satisfaction by establishing a controlling centre in their countries, and having, at the most, an agency in London.

## BENEFITS OF SUCH CONTROL.

The benefits to be derived from the reorganisation outlined above would be :—

1st The nation would control all the available balances abroad through the bank, and under any circumstances could use them at par.

2nd The operations of all bankers would be facilitated.

3rd The branches of the Bank of England would be able to deal on the spot with the necessary measures to meet the debit or credit balances which always arise in normal times in every separate market ; that is, a shortage or surplus of bills caused by variation of terms, seasons, harvests, trades, &c.

4th The necessary information would be provided periodically to headquarters in London as to the exact situation with regard to the settlements of England to each other country, and the Government could thus always decide immediately whether to help the situation by loans, by regulation of imports in relation to exports, or by other means.

By utilising the financial institutions in this way the distribution of the proceeds of international transactions would be accomplished without any possible loss in foreign exchanges. At the same time the Government would always be in a position to ascertain the exact amount of funds available in every market where the Bank of England had branches.

## ORDERS TO PAY AND COLLECT IN FOREIGN COUNTRIES.

It may be found desirable that the two distinct groups of Bills of Exchange in existence to-day should be kept apart as follows :—

1st Orders to pay in other countries whether through bills, cables, or any other form should be provided by Bankers to the public at sight only, just as if they were simple cheques. The individual receiving the bills could then hand them over to his bankers as deposits for their equivalent without any loss of time for acceptance, or reductions in value for discounting, and, in order to enable the traders to have a quicker return on their capital, means should

be devised to encourage cable transfers in every possible form and to reduce cable rates. When, considering these suggestions, we must bear in mind that if the settlement of foreign trade was under control the whole operation would only be a distribution of proceeds, for which the funds must be always in existence beforehand both here and abroad, and also that currency never travels, and, therefore, there is no apparent reason to wait 90 days, or any other period, for payment.

2nd Orders to collect proceeds, whether here or in foreign countries, should be used only as accommodation between customers and bankers, or bankers and bankers, and, therefore, in fulfilment of their object, should continue to be issued at any desired term for payment.

## THE BANKERS AS COLLECTORS AND DISTRIBUTORS OF PROCEEDS.

Once measures had been taken to maintain a balance upon which to draw bills of exchange, a step further could be gone by adopting methods which would provide information, in advance, of settlements to

become due, and, by the following means, the Government would be in a position to obtain this information.

Every exporter would draw a bill of exchange for each export, including, perhaps, existing debts, and these bills would be handed in in the ordinary way to his bankers for collection. If a bill of exchange was not found to be desirable as a general rule for foreign trade, or, in certain cases, was not obtainable, the exporter would hand over to his bank a note to collect for him in future the proceeds of his transactions, whatever the due date, which the nation requires in foreign currency and the individual wants in pounds.

As far as the bankers are concerned these measures, if made general, would provide them with more business, and the exporters and others would be better served this way than by having to wait for remittances from abroad.

## CONCLUSION.

To establish a correct standard for measuring transactions, and to make national provision for special circumstances of trade must not be confused with provid-

ing exports to pay for imports, the extent of a country's exports depending, of course, upon its activities and resources, but the essential point is that whatever a country's trade may be, it shall receive and give value for value in all its transactions with other countries. This means national guidance, by which provision of a balance upon which to draw bills of exchange shall be assured, and the recognition of currency standards, under all circumstances, established. In this way many of the disabilities of international commerce would be removed, and the debasement of currency rendered impossible.

# APPENDIX.

## THE BRITISH PENNY.

To facilitate calculations in currency a slight alteration in the English coinage may be worth considering. As only ten figures are used in all calculations, the value of the British penny should be altered so that ten of them are worth one shilling, and thus loss of time in daily reckonings, both in the United Kingdom and abroad, would be avoided. There are a few people who see wonders in the figure 12, because it can be readily divided by 2, 3, 4, and 6, but they overlook the fact that it is much easier to divide and multiply by 10 than 12. If our system of figures was based on twelves instead of tens the claims of the duodecimal theorists would be reasonable.

In carrying out the suggested alteration in the coinage the new pennies and half pennies could be made of different metal, and exchanged to the public at the rate of ten for twelve, and, most probably, the value of copper of the present coins would not only pay for the expense of the change, but also give a profit. The change would provide an opportunity of raising revenue through the post office by an increase of

20 per cent. when selling stamps, and also through corporations by tram fares, when the total charge is one or two pennies.

In making a change of this character it would only be necessary to make it legal that all arrangements for payments previous to the change, and which are affected by the alteration, should be adjusted in exact relation to the value of the new coin, giving or taking the advantage in the last fraction of the last half-penny of the total amount due for payment.

The benefits to be obtained from the adoption of this small change would be considerable, apart from gain in revenue by the Government. The time wasted in daily reckonings, is enormous, and, if valued in money, would run into a large amount each year. By expressing values in future in shillings and decimals a perfect decimal system would be instituted.

## THE SOVEREIGN AS A UNIVERSAL STANDARD.

Once currency has been legally protected in each country separately as a fixed measure of value, and with a view to facilitate international transactions, it might be possible for an arrangement to be made between the United Kingdom, her colonies, allies,

and some, if not all, of the remaining countries, by which the English sovereign would be accepted as a universal standard, and the coinage of other countries adjusted accordingly; so that twenty shillings, francs, lires, rupees, &c., would always be equal to one pound sterling. The British sovereign is suggested as a standard because it has been the universal basis for exchange, and England is the best customer of most of the leading countries. The result of this would be that rates of exchange would be unnecessary. Theoretically, this appears to be difficult to accomplish, but it could be readily brought about if there was a general desire for improvement in the methods of international commerce. If the United Kingdom arranged her shilling to be worth ten pence instead of twelve pence, it should be an easy matter for all the colonies to agree, and have the equivalents right through. As India requires coins of a very small value she could divide the penny into ten or twenty parts if wanted, and still be in perfect harmony with all.

For some of the Allies in particular, and also for many countries whose currencies are depreciated at present, it should be immaterial to them whether they eventually raise the value of their currencies to what they were before, or to a new basis by which

20 units should be equal to an English sovereign. It would only be necessary for them to re-coin their gold in order to make it exactly of the same weight and fineness as the sovereign and call it 20 francs, lires, &c., instead of 25, or otherwise.

Changes of this kind are not a new thing abroad, and they have been made before as follows : — By law all transactions, agreements, debts, price lists, &c., in existence previous to the adoption of a new currency have been made payable in the proportion of its equivalent to the old one, at the rate of exchange prevalent during the previous currency. The present circumstances, undoubtedly, offer a fine opportunity to every country to re-arrange its currency in such a way as not to require a rate of exchange in future, and it is to be hoped that the matter will receive the consideration it deserves.

The advantages of having all currencies on a universal basis would be that :—

1st By knowing one currency we should know all of them, and need not spend time at school, or afterwards in learning them.

3rd When buying, selling, or paying in foreign currencies, there would be no need of loss of time and patience in working out equivalents.

2nd A price list from one country would be available for the whole World without the necessity of calculations.

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